

CONFORMED COPY

LOAN NUMBER 4305 IND

Loan Agreement

(Coral Reef Rehabilitation and Management Project)

between

REPUBLIC OF INDONESIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated May 1, 1998

LOAN NUMBER 4305 IND

LOAN AGREEMENT

AGREEMENT, dated May 1, 1998, between REPUBLIC OF INDONESIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received letters from the Borrower dated November 11, 1997, and January 21, 1998, describing a program designed to protect, rehabilitate and achieve sustainable use of coral reefs and associated ecosystems (COREMAP, as hereinafter defined) and declaring the Borrower's commitment to the execution of COREMAP;

(B) the Borrower has requested that the Bank support the Borrower's execution of COREMAP through a series of loans over a period of approximately fifteen years to be utilized by the Borrower in the implementation of COREMAP;

(C) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which Project forms the first phase of COREMAP, has requested the Bank to assist in the financing of the Project; and

(D) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of the Project, the Bank has determined that such assistance would be in accordance with the provisions of Resolution No. 94-2 of the Executive Directors of the Bank, dated May 24, 1994, establishing the GEF Trust Fund, and, by an agreement of even date herewith between the Borrower and the Bank, acting as an Implementing Agency of the GEF (the GEF Grant Agreement), GEF is agreeing to provide such assistance in an aggregate principal amount equivalent to three million one hundred thousand Special Drawing Rights (SDR

3,100,000) (the GEF Grant); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower in support of the first phase of COREMAP upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "BAPPENAS" means the National Development Planning Agency of the Borrower and any successor thereto;

(b) "COREMAP" means the Borrower's national coral reef rehabilitation and management program as set out in the letter from the Borrower referred to in the Preamble to this Agreement;

(c) "Fiscal Year" means the fiscal year of the Borrower commencing April 1 and ending March 31;

(d) "Grant" means a grant to be made available by the Borrower out of the proceeds of the Loan to a Participating Village for the financing of one or more Sub-projects as set out in the Grant Guidelines;

(e) "Grant Guidelines" means the guidelines dated March 7, 1998, as such Grant Guidelines may be amended from time to time with the agreement of the Bank;

(f) "Isolated Vulnerable People" means those social groups in Indonesia that have a distinct social and cultural identity, and that are susceptible to being

disadvantaged in the development process induced by the Project or any part thereof;

(g) "Kabupaten" means the following districts of the Borrower: Kabupaten Maluku Tengah in the Province of Maluku and Kabupaten Selayar in the Province of Sulawesi Selatan;

(h) "Kepala Desa" means the Head of a village;

(i) "LIPI" means Lembaga Ilmu Pengetahuan Indonesia, the Indonesian Institute of Sciences;

(j) "LKMD" means a village development council within a village, headed by the Kepala Desa;

(k) "Participating Village" means a village selected in agreement between the Borrower and the Bank for participation in Part D. 1 and D. 2 of the Project;

(l) "Pimpro" means a Project manager at the central level;

(m) "PMO" means the Project Management Office maintained in accordance with paragraph 1 of Schedule 5 to this Agreement;

(n) "Project Performance Indicators" means those indicators designed to measure the achievement of the Project objectives as set forth in Schedule 6 to this Agreement;

(o) "Provincial COREMAP Steering Committee" means the committee established in the provinces of Irian Jaya, Maluku and Sulawesi Selatan for the coordination of Project activities;

(p) "Rupiah" or "Rp" means the currency of the Borrower;

(q) "Second phase of COREMAP" means such phase as described in the Borrower's letter referred to in the Preamble to this Agreement;

(r) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(s) "Sub-project" means a specific investment activity to be carried out under Part D. 2 of the Project.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to six million nine hundred thousand dollars (\$6,900,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement: (i) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project (other than Part D. 2 of the Project) described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of Grants made under Part D. 2 of the Project and in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bank Indonesia or in a state commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including, in the case of a state commercial bank, appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be October 31, 2001, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later

date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.06. Interest and other charges shall be payable in arrears on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through BAPPENAS as the coordinating agency and LIPI as the executing agency, with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial, marine and social practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not

later than six months after the end of each such Fiscal Year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) (i) Subject to sub-paragraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the GEF Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Grant Agreement.

(ii) Sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(b) an event shall have occurred which shall make it improbable that the COREMAP or a significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness, except only the effectiveness of this Agreement, have been fulfilled.

Section 6.02 The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
c/o Directorate General of Budget
Jalan Lapangan Banteng Timur 2-4
P. O. Box 1139
Jakarta 10710
Indonesia

Cable address:

FINMINISTRY
Jakarta

Telex:

45799 DJMLN-IA
44319 DEPKEU-IA

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF INDONESIA

By /s/ Dorodjatun Kuntjoro-Jakti, Ambassador
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Javad Khalilzadeh-Shirazi
Acting Regional Vice President
East Asia and Pacific

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and

the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Surveillance equipment:		
(a) Part C.1 (b) and (c) (i) and (iii) of the Project	1,240,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 65% for other items procured locally
(b) Part C.1 (c) (ii) of the Project	310,000	40% of foreign expenditures, 40% of local expenditures (ex-factory cost) and 25% for other items procured locally
(2) Awareness activities under Part B.1, B.2 and B.3 of the Project	2,370,000	70%
(3) Community support services under Part D.1 (i) of the Project	260,000	100%
(4) Studies under Parts A, C and D of the Project, except Part A.4 (b) of the Project	390,000	50%
(5) Operation and maintenance for surveillance under Parts C.1 (b) and C.2 (b) (i) and (iii) of the Project	160,000	60%
(6) Conferences, workshops and seminars under Parts A, C and D of the Project	180,000	55%
(7) Consultants' services under Parts A, C and D of the Project	1,280,000	50%
(8) Training under Part C. 3 (a), (b) (i) and (b) (ii) of the Project	120,000	60%

(9)	Grants	220,000	100% of the Grant amount
(10)	Unallocated	370,000	
	TOTAL	6,900,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term "Awareness activities" means services, publications, distribution of materials, workshops, and per diem and travel for relevant staff under Part B of the Project;

(d) the term "Community support services" means services by non-governmental organizations and universities; and

(e) the term "Operation and maintenance for surveillance" means operation and maintenance of equipment procured under Part C. 1 (b) and (c) of the Project, allowances for village reef watchers, and replacement of minor surveillance equipment.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditures in respect of Categories (1), (5) and (8) until the Operational Manual has been issued pursuant to the provisions of paragraph 10 of Schedule 5 to this Agreement and the site evaluations and designs have been approved pursuant to the provisions of paragraph 11 of Schedule 5 to this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$50,000 equivalent each; (ii) training; (iii) operation and maintenance for surveillance; (iv) conferences, workshops and seminars; (v) Grants; (vi) awareness activities under contracts costing less than \$100,000 equivalent each; and (vii) contracts for the employment of consulting firms valued at less than \$100,000 equivalent each, and contracts for the employment of individuals valued at less than \$50,000 equivalent each, including contracts for studies; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The Project is the first phase of the Borrower's COREMAP. The objective of the Project is to assist the Borrower in establishing a viable framework for a national coral reef management system that promotes the protection, rehabilitation, conservation and sustainable use of coral reefs and associated ecosystems.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Program Strategy and Management

1. COREMAP Policy and Strategic Planning

(a) Strengthening the national policy for coral reef protection and sustainable use.

(b) Strengthening the national COREMAP strategy and preparation of an action

plan, including preparation of guidelines for COREMAP support and carrying out of strategy discussion workshops.

2. Legal Framework for Coral Reef Management

(a) Strengthening the Borrower's national legal framework relating to coral reef ecosystems, including (i) review of existing legislation; (ii) preparation of draft laws, regulations, decrees and guidelines, as needed, to control destructive practices on coral reefs, and (iii) carrying out of legal studies on coral reef management, including preparation of guidelines for the collection of evidence of major destructive activities on reefs, and a study on conflict resolution among stakeholders in coral reef areas.

(b) Strengthening the Borrower's legal framework for coral reef management through the provision of assistance in the evaluation and preparation: (i) in the Province of Maluku, of provincial and Kabupaten legislation on coral reefs, taking into account local cultural assets, including customary user rights; (ii) of Kabupaten legislation for the endorsement of community-based management plans of coral reef resources in the Province of Maluku; (iii) of Kabupaten legislation for the endorsement of community-based management plans of coral reef resources in the Province of Sulawesi Selatan; and (iv) of a legal framework for conservation management of the Taka Bone Rate National Park in the Province of Sulawesi Selatan, including the carrying out of workshops and seminars.

3. Project Management

(a) Carrying out of national workshops for Project launch, planning, review and evaluation, and comparative studies for Project staff.

(b) Carrying out of training for Project staff, Participating Villages and other key stakeholders in coral reef and Project management.

4. Preparation of Coral Reef Rehabilitation and Management Investments for the Second Phase of COREMAP

(a) Carrying out of detailed designs of coral reef rehabilitation and management for investments proposed for the second phase of COREMAP in the Provinces of Irian Jaya, Maluku, Sulawesi Selatan and Sulawesi Tenggara, including preparation of detailed design and a draft implementation plan.

(b) Carrying out of an evaluation study of the Project.

Part B: Public Awareness

Increasing public awareness of coral reef rehabilitation and sustainable management of coral reef ecosystems, fostering public stewardship of coral reefs, and changing destructive behavior by the general public, through:

1. the design, implementation and evaluation of a national awareness campaign, including development of multi-media awareness instruments, carrying out of awareness development training for relevant government institutions, non-governmental organizations and media reporters, and carrying out of seminars, consultations and surveys;

2. the design, implementation and evaluation of a regional awareness campaign in the Provinces of Maluku, Nusa Tenggara Timur, Sulawesi Selatan and Riau, including development and dissemination of appropriate public relations materials;

3. the preparation and dissemination of information on COREMAP, including publication and distribution of guidelines, newsletters and other awareness materials to relevant COREMAP stakeholders in the Provinces of Irian Jaya, Maluku, Nusa Tenggara Barat, Nusa Tenggara Timur, Sulawesi Selatan, Sulawesi Tenggara, Sulawesi Utara, Sumatera Barat, Sumatera Utara, and Riau; and carrying out of national workshops, conferences and consultations; and

4. the design and implementation of an award and public recognition system to reward outstanding performance by villages, groups of individuals, and individuals in

coral reef management and conservation.

Part C: Coral Reef Surveillance and Enforcement Activities

1. Strengthening surveillance and enforcement activities for coral reef protection at the national level, through:

(a) the preparation of guidelines and operational standards for field surveillance and enforcement;

(b) the establishment and operation of a national coral reef surveillance and enforcement unit responsible for the coordination of field surveillance and enforcement units, including provision of relevant equipment;

(c) provision of surveillance equipment to field coral reef surveillance and enforcement units operating in: (i) the Lease Islands in the Province of Maluku; (ii) Taka Bone Rate in the Province of Sulawesi Selatan; and (iii) the Padaido Islands in the Province of Irian Jaya; and

(d) carrying out of (i) annual workshops for judges, prosecutors, policy makers, and senior officials dealing with marine enforcement, on curbing destructive activities on coral reefs; (ii) national and international workshops on coral reef protection from destructive activities; and (iii) a study for the curbing of destructive activities on coral reefs, including poison testing, and preparation of an action plan.

2. Strengthening surveillance and enforcement activities for coral reef protection at COREMAP sites, through:

(a) the carrying out of a site assessment for the establishment of a surveillance system for the Padaido Islands in the Province of Irian Jaya; and

(b) the establishment and operation of: (i) a coral reef surveillance system for the Lease Islands in the Province of Maluku, including a reef watcher system; (ii) a coral reef surveillance and enforcement unit and system for the Taka Bone Rate National Park in the Province of Sulawesi Selatan, including aerial surveillance and reef watchers' systems; and (iii) a coral reef surveillance unit and system in the Padaido Islands in the Province of Irian Jaya, targeting destructive activities on coral reefs.

3. Strengthening the capacity for implementation of surveillance and enforcement activities for coral reef protection through:

(a) the preparation of training modules for surveillance of coral reef areas and the enforcement of the prohibition of destructive practices on coral reefs; and

(b) the carrying out of training for: (i) government officials, non-governmental organizations and fishers in ocean and coastal management and surveillance and enforcement; (ii) community groups and non-governmental organizations in reef watching; and (iii) law enforcement officers in reef watching and law enforcement in coral reef areas.

Part D: Community-Based Management

1. Improvement of the condition of coral reef ecosystems in (i) the Lease Islands in the Province of Maluku and (ii) in Taka Bone Rate in the Province of Sulawesi Selatan, through:

(a) (i) the carrying out in the Participating Villages of consultation and awareness activities on issues affecting coral reef management; (ii) the carrying out in Participating Villages of community training and extension activities in sustainable coral reef management and technical skills; (iii) the strengthening, and establishment of, community groups, in Participating Villages, for improved coral reef management; and (iv) the carrying out in Participating Villages of workshops and comparative studies;

(b) the preparation of coral reef management plans by the Participating

Villages; and

(c) the provision of technical assistance and training to Participating Villages in: (i) sustainable management of coral reefs; (ii) participatory reef monitoring; (iii) the development of proposals for coral reef management and alternative income generation activities; (iv) the development of micro-enterprises to support reef management; (v) dissemination of information relating to existing credit mechanisms and training in the formation of savings and credit schemes; and (vi) identification of infrastructure required for implementation of coral reef management plans.

2. Provision of Grants to Participating Villages for the carrying out of investment activities in Participating Villages in the Lease Islands in the Province of Maluku and in Taka Bone Rate in the Province of Sulawesi Selatan, including (i) implementation of reef management plans; (ii) construction of reef-caring infrastructure and carrying out of monitoring activities necessary for the implementation of reef management plans; and (iii) undertaking alternative income generating activities.

3. Carrying out of a study in Taka Bone Rate in the Province of Sulawesi Selatan on the optimization of park zonation and delineation of sanctuary areas, including site surveys, and carrying out of workshops and dissemination of information on the park.

4. Carrying out of a study in the Lease Islands in the Province of Maluku on the location of reef sanctuary areas, including site surveys, and carrying out of related workshops and information dissemination activities.

* * *

The Project is expected to be completed by April 30, 2001.

SCHEDULE 3

Interest and Principal Repayment

Provisions A. General Definitions

For purposes of this Schedule, the following terms have the following meanings:

(a) "Disbursed Amount" means, in respect of each Interest Period, the aggregate principal amount of the Loan withdrawn from the Loan Account in such Interest Period.

(b) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment date to, but excluding, the next following Interest Payment Date.

(c) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(d) "Rate Fixing Date" means, for each Disbursed Amount, the first day of the Interest Period next following the Interest Period in which such Disbursed Amount is withdrawn.

B. Interest

1. The principal amount of the Loan shall be divided into Disbursed Amounts. Interest shall accrue on each Disbursed Amount outstanding from time to time at a rate based on a floating rate index prior to its Rate Fixing Date and at a fixed rate from its Rate Fixing Date, as described in paragraph 2 of this Part B.

2. (a) From the date of withdrawal of each amount of each Disbursed Amount withdrawn and outstanding, to but not including the Rate Fixing Date for such Disbursed Amount, interest on each such amount shall accrue, at a rate equal to the applicable:

(i) LIBOR Base Rate; plus

(ii) LIBOR Total Spread.

(b) From the Rate Fixing Date for each Disbursed Amount until final repayment thereof, interest on such Disbursed Amount shall accrue, at a rate equal to the applicable:

(i) Fixed Base Rate; plus

(ii) Fixed Total Spread.

3. For purposes of paragraph 2 of this Part B, the following terms have the following meanings:

(a) "LIBOR Base Rate" means, for the Interest Period in which a Disbursed Amount is withdrawn, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the day occurring on the Interest Payment Date preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(b) "LIBOR Total Spread" means, for the Interest Period in which each Disbursed Amount is withdrawn:

(i) one half of one percent (1/2 of 1%);

(ii) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include such Disbursed Amount for such Interest Period; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) "Fixed Base Rate" means, for each Disbursed Amount, the equivalent of the London interbank offered rate for six-month deposits in dollars for value on the Rate Fixing Date for such Disbursed Amount, expressed as a single fixed interest rate based on the fixed interest rates corresponding to the repayment installments of such Disbursed Amount, as reasonably determined by the Bank and expressed as a percentage per annum.

(d) "Fixed Total Spread" means, for each Disbursed Amount:

(i) one-half of one percent (1/2 of 1%);

(ii) minus (or plus) the cost margin, applicable on the Rate Fixing Date for such Disbursed Amount, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated to fund single currency loans or portions thereof made by it that include such Disbursed Amount; plus

(iii) the Bank's risk spread applicable on the Rate Fixing Date for such Disbursed Amount; as reasonably determined by the Bank and expressed as a percentage per annum.

4. The Bank shall notify the Borrower of LIBOR Base Rate, LIBOR Total Spread, Fixed Base Rate and Fixed Total Spread applicable to each Disbursed Amount, promptly upon the determination thereof.

5. Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Schedule, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in this Schedule, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower

of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

C. Repayment

1. Subject to the provisions of paragraph 2 of this Part C, the Borrower shall repay each Disbursed Amount of the Loan in semiannual installments payable on each June 15 and December 15, the first such installment to be payable on the seventh (7th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount and the last such installment to be payable on the eighteenth (18th) Interest Payment Date following the Rate Fixing Date for such Disbursed Amount. Each installment shall be one-twelfth (1/12) of such Disbursed Amount.

2. Notwithstanding the provisions of paragraph 1 of this Part C, if any installment of principal of each Disbursed Amount would, pursuant to the provisions of said paragraph 1, be payable after December 15, 2013, the Borrower shall also pay on said date the aggregate amount of all such installments.

3. After each Disbursed Amount shall have been withdrawn, the Bank shall promptly notify the Borrower of the amortization schedule for such Disbursed Amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for surveillance equipment shall be grouped in bid packages estimated to cost \$50,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Shopping

Spare parts, replacement of minor surveillance equipment and fuel estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Community Participation

Goods and works required for Part D. 2 of the Project shall be procured in

accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Parts A, C and D of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines; provided, however, that community support services under Part D. 1 of the Project shall be sub-contracted to non-governmental organizations and universities, in accordance with criteria acceptable to the Bank, by the consulting firm selected for the carrying out the services under Parts A and C of the Project.

2. Selection Based on Consultants' Qualifications

Services under Parts A. 2 (a) (iii) and C. 1 (d) (iii) of the Project, estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for park and reef sanctuary zonation under Part D.3 and D.4 of the Project and services for the evaluation study under Part A.4 (b) of the Project may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, and each sub-contract for services under Part D. 1 of the Project, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain, until completion of the Project, the PMO, with competent full-time staff in adequate numbers, including a Project Management Office Director seconded from BAPPENAS, a Deputy Project Director, and a Secretary and Pimpro seconded from LIPI. The PMO shall be responsible for Project planning, budgeting, monitoring and reporting.

2. The Borrower shall, not later than June 30, 1999, establish a national unit for the operation of a coral reef surveillance and enforcement system, headed by the Directorate General of Fisheries in the Borrower's Ministry of Agriculture, with competent staff in adequate numbers, which shall be responsible, in cooperation with other relevant agencies of the Borrower and under the guidance of the national COREMAP Steering Committee, for: (a) issuing guidelines on coral reef surveillance to the surveillance and enforcement field units; (b) carrying out the surveillance and enforcement training under Part C. 3 of the Project; and (c) carrying out data analyses to monitor the effectiveness and impact of field surveillance units on the reduction of destructive practices on reefs.

3. The Borrower shall establish, not later than June 30, 1999, surveillance units at the Provincial Fisheries Offices (Dinas Perikanan Tk. I), with competent staff in adequate numbers, under the guidance of the provincial COREMAP Steering Committee, in the following provinces:

(a) in the Province of Maluku, to coordinate the activities of village reef watchers and surveillance efforts in the Lease Islands;

(b) in the Province of Sulawesi Selatan, to operate coral reef surveillance patrols, including aerial surveillance patrols, at Taka Bone Rate in cooperation with the Borrower's park conservation unit, Navy units and Police units, and shall coordinate the activities of village reef watchers; and

(c) in the Province of Irian Jaya, to operate coral reef surveillance patrols in the Padaido Islands, targeting destructive activities on coral reefs, in cooperation with the Borrower's Navy and Police units, and coordinate the activities of the village reef watchers.

4. The Borrower shall, not later than December 31, 1998, employ consultants to assist in the carrying out of Parts A, C and D of the Project, and shall cause such consultants to employ, not later than February 15, 1999, qualified non-governmental

organizations and universities to assist in the carrying out of Part D. 1 of the Project.

5. The Borrower shall, not later than December 31, 1998, employ consultants to assist in the carrying out of Part B of the Project.

6. The Borrower shall:

(a) not later than September 30, 2000, furnish to the Bank for comments, and discuss with stakeholders involved in coral reef management, including government agencies, non-governmental organizations and private sector organizations, the draft COREMAP strategy and action plan prepared under Part A. 1 of the Project; and

(b) promptly after receipt of the Bank's comments and the completion of the discussions with the organizations referred to in sub-paragraph (a) above, take all actions necessary to finalize such COREMAP strategy and action plan, taking into account the Bank's comments thereon.

7. The Borrower shall:

(a) furnish to the Bank for comments the draft legislation prepared under Part A. 2 (b) of the Project, not later than January 1, 2000; and

(b) thereafter, submit such draft legislation, revised in light of the Bank's comments, to the appropriate legislative or executive organ for enactment or issuance.

8. The Borrower shall:

(a) furnish to the Bank for comments drafts of any laws, regulations and guidelines prepared under Part A. 2 (a) (ii) of the Project, not later than January 1, 2000; and

(b) thereafter, submit such draft instruments, revised in light of the Bank's comments, to the appropriate legislative or executive organ for enactment or issuance.

9. The Borrower shall:

(a) carry out the studies under Part A. 2 (a) (iii) and C. 1 (d) (iii) of the Project in accordance with terms of reference acceptable to the Bank;

(b) not later than April 30, 2000, furnish to the Bank for comments the recommendations of said studies;

(c) not later than July 31, 2000, prepare an action plan for the implementation of the recommendations of said studies taking into account the comments of the Bank on such recommendations; and

(d) promptly thereafter, carry out such action plan.

10. The Borrower shall, for purposes of Part C. 1 (a) of the Project;

(a) prepare an operational manual for the implementation of Part C. 1 (b) and (c) and C. 2 (b) of the Project, such manual to include, among others: (i) the description of the operational system for field surveillance, (ii) required equipment, (iii) guidelines and operational standards for field patrolling, reporting, recording, monitoring and evaluation responsibilities and staffing; and (iv) the training program; and furnish such operational manual to the Bank for approval; and

(b) issue the approved operational manual and periodically update such operational manual, as may be necessary, and furnish such updated operational manual to the Bank for approval.

11. The Borrower shall:

(a) furnish to the Bank for approval the site assessment and detailed design for surveillance activities carried out under Part C. 2 (a) of the Project; and

(b) carry out of Part C. 1 (c) (iii) and C. 2 (b) (iii) of the Project in accordance with such approved assessment and design.

12. In carrying out Part D. 2 of the Project, the Borrower shall make Grants available to each Participating Village in Kabupaten Maluku Tengah and Selayar up to an aggregate amount not to exceed Rp. 100,000,000 for Kabupaten Maluku Tengah and not to exceed Rp. 150,000,000 for Kabupaten Selayar, as follows:

(a) Grants up to thirty percent of the aggregate amount referred to above upon the adoption by the Participating Village of a draft coral reef management plan, in accordance with the criteria set forth in the Grant Guidelines;

(b) Grants up to an additional thirty percent of such aggregate amount upon compliance with sub-paragraph (a) above and the preparation of a plan for alternative income generation activities, in accordance with the criteria set forth in the Grant Guidelines; and

(c) Grants up to an additional forty percent of such aggregate amount upon compliance with sub-paragraphs (a) and (b) above and appropriate initial implementation of the coral reef management plan adopted by such Participating Village.

13. A Sub-project selected by a Participating Village shall qualify as eligible for financing out of the proceeds of the Loan only if the Sub-project is an investment project, is technically and environmentally viable, has been designed in accordance with the criteria and procedures set forth in the Grant Guidelines, and the Sub-project proposal has been publicly discussed among, and agreed to by, the villagers in the Participating Village under the coordination of the LKMD.

14. The Borrower shall ensure that, prior to the carrying out of each Sub-project the requirements of paragraph 13 of this Schedule shall have been complied with.

15. The Borrower shall take all measures necessary to ensure that a development project proposed to be carried out in, or in the vicinity of, the Lease Islands in the Province of Maluku, Taka Bone Rate in the Province of Sulawesi Selatan, or the Padaido Islands in the Province of Irian Jaya, shall only be carried out if a satisfactory environmental study of said proposed project shall have been completed and shall have established that any potential adverse effect on the project site will be avoided or mitigated in compliance with the Borrower's applicable legislation.

16. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 15, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by January 15, 2000, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

17. In accordance with the Borrower's commitment to the protection of the interests of Isolated Vulnerable People, the Borrower shall take measures acceptable to the Bank:

(a) to protect customary user rights of Isolated Vulnerable People;

(b) to ensure that the benefits received by the Isolated Vulnerable People under the Project are in harmony with their economic, social and cultural preferences;

(c) through a process of informed participation, to involve concerned Isolated Vulnerable People in the design and implementation of coral reef management plans; and

(d) to mitigate or avoid adverse effects on Isolated Vulnerable People caused or likely to be caused by the Project.

18. In carrying out Part A. 3 of the Project, the Borrower shall:

(a) establish an independent evaluation panel with terms of reference and members acceptable to the Bank;

(b) cause such independent panel to carry out an evaluation of the Project by not later than October 1, 2000; and

(c) furnish the results of the evaluation to the Bank for comments.

SCHEDULE 6

Project Performance Indicators

1. The completed COREMAP national policy and strategy discussed with key stakeholders. Letter from BAPPENAS issued recommending the implementation of the strategy to the involved agencies. Sites and design for the second phase of COREMAP in accordance with strategy.

2. Institutional capacity evaluated as sufficiently improved to enable the expansion of COREMAP.

3. Compliance rates (number of patrol days without violations/total patrol days) increasing by 10% in pilot sites, following the introduction of the surveillance and enforcement system.

4. Community-based management pilots evaluated as workable models, and lessons of experience incorporated into the design of the second phase of COREMAP.

5. At least 75% of the output indicators agreed with the Bank reached, at least 75% of disbursements reached by April 30, 2001, and the Project implemented satisfactorily.

SCHEDULE 7

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (9) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to para graph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant

to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

